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Voluntary - Public

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Iraq

Post: Baghdad

Wheat Update – Grain Board Purchasing

Report Categories:

Grain and Feed

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Report Highlights:

Recent press coverage claiming that Iraq will not import additional wheat this year is not accurate. However, the Grain Board of Iraq is under pressure to purchase larger quantities of the recent domestic wheat harvest.

This report provides an updated estimate of Iraq's wheat import needs.

General Information:

Post discussions earlier this week with the Iraqi Grain Board (IGB) clarified a press report (see below) that Iraq would suspend wheat imports through the remainder of 2010. IGB representatives discounted the press reports, and said it was a misunderstanding.

A number of factors may have contributed to the initial press reports. Food security in general is politicized and public discussion of Iraq's wheat imports needs are rare. Compounding this situation has been the unpopular decision to lower the wheat procurement price. In this light, the IGB may be seen as deflecting potential criticism by implying that it would purchase its requirements from Iraqi farmers.

The IGB's original intentions were to purchase only #1 quality wheat, which would have restricted domestic purchases to under 500 TMT. IGB contacts now state that purchases may well reach 1,500 TMT. The high quality of domestic production this year was cited as one reason. While this may be the case, historically only around one third of the crop grades #2 or better, suggesting that the IGB is being very generous this year in their grading procedures, or, that the larger than intended purchases are reflective of inability of IGB and the Ministry of Trade (MoT) to effectively control what the local elevators actually receive. Other Iraqi officials have questioned the purchases, implying that much of the additional purchases are of feed quality.

The GBI was scheduled to meet with other Iraqi officials this week to secure the funds required to finance the level of purchases now anticipated. Legally, the IGB cannot accept grain if the funds have not been allocated. This raises the question whether farmers will receive their payments in a timely manner. Obviously, the GBI buying additional quantities of wheat is a way to placate producers upset over the new lower procurement price.

BEGIN TEXT OF IRAQI PRESS REPORT

27 May 2010 09:29 GMT

Iraq Won't Import Any More Wheat In 2010 - Grain Board

DOW JONES NEWSWIREs: Hassan Hafidh

The Iraqi Grain Board won't import any more wheat for the rest of this year as the country's domestic harvest is expected to be good, the head of the board said Thursday.

"We are not importing any more wheat this year," Hassan Ismael Ibrahim told Dow Jones Newswires. "Our local harvest is promising."

The board has purchased 1.43 million metric tons of foreign wheat so far this year, according to figures from Iraqi trade officials. There was also some wheat left over from last year, although it isn't known how much.

This year has seen better rainfall and farmers are expecting a bumper harvest, exceeding 2.2 million tons.

Iraq consumes between 3.5 million and 4 million tons of wheat a year. Last year, rainfall was well below normal and total wheat production dropped to 1.2 million tons, according to the grain board's statistics.

END TEXT OF IRAQI PRESS REPORT

Post revisions to the 2010/11 Iraq wheat supply/demand situation reflect the revised procurement strategy that the IGB- MoT has in place and also adds 200 TMT to this season's production, based upon updated information from Kurdistan. Imports are down 100 TMT from the 3,600 TMT now carried in the FAS-PSD . Both feed use and ending stocks are anticipated to increase this marketing year. It seems likely that quality issues may arise that will preclude high levels of Iraqi domestic wheat from being used. If this is the case, some additional domestic production may be forced into feed channels or government storage. Feed wheat supplies and bran from flour mills, along with domestic barley production should drive feed cost down, giving a much needed boost to livestock producers.

IRAQ: Wheat S/D 2007 - 2010

Attribute	2007/06	2008/09	2009/10	2010/11
Area Harvested (1000 HA)	1,883	1,133	1,200	1,750
Beginning Stocks (1000 MT)	500	750	650	525
Production (1000 MT)	2,555	1,327	1,407	2,200
MY Imports (1000 MT)	3,414	3,869	3,700	3,500
Total Supply (1000 MT)	6,469	5,946	5,757	6,225
Feed and Residual (1000 MT)	300	500	400	700
FSI Consumption (1000 MT)	5,419	4,796	4,832	4,875
Total Consumption (1000 MT)	5,719	5,296	5,232	5,575
Ending Stocks (1000 MT)	750	650	525	650
Yield (MT/HA)	1.36	1.17	1.17	1.26

The anticipated level of domestic procurement is unprecedented. During the 2006/07 marketing year only 1.0 MMT was purchased, approximately 40% of a crop 14% larger than this year's. While the percentage purchased rose during 2008 and 2009, this was reflective of the drought reduced crops harvested during this period.

Iraq Domestic Wheat Production and Actual Procurement:

	Domestic Production	Quantity Purchased	% Purchased
MY	MT	MT	%
2003/04	2,700,000		
2004/05	2,000,000	450,000	23%
2005/06	2,400,000	360,000	15%
2006/07	2,500,000	1,000,000	40%
2007/08	2,300,000	850,000	37%
2008/09	1,300,000	650,000	50%
2009/10	1,400,000	750,000	54%
2010/11	2,200,000	1,500,000	68%

Higher levels of domestic wheat procurement may have implications for the types, specifications and quality of wheat that Iraq tenders for and purchases. While producers may be happy with the higher domestic procurement levels, recipients of Public Distribution System (PDS) flour may be very unhappy. As noted in the table below the ratio of higher quality imported wheat in recent years has varied from around 4/1 to 6/1. This marketing year the ratio will decline to 2.3/1, as domestic content effectively doubles.

Wheat: PDS – Domestic versus Imported Content

	Domestic Purchases	Imports	Domestic/ Imports	Imports/ Domestic
MY	MT		%	Ratio
2007/08	850,000	3,414,000	25	4.0/1
2008/09	650,000	3,869,000	17	5.8/1
2009/10	750,000	3,700,000	20	4.9/1
2010/11	1,500,000	3,500,000	43	2.3/1

Historically low quality PDS flour is sold by recipients to traders and brokers who resell it to livestock producers for inclusion in livestock rations. Consumers then use the proceeds toward the purchase of imported flour. Turkey and Iran may each be in an excellent position to benefit from the revised Iraqi procurement strategy, and increase flour exports this year – if Iraq's PDS recipients are not satisfied with the appearance and quality of the flour the MoT delivers.

Wheat quality issues may influence Iraq's purchasing decisions during 2010/11. Baking characteristics and appearance are important, suggesting that blending domestic wheat with imported wheat will

become problematic this year as domestic content increases as now forecast. Post will attempt to survey MoT grain quality labs in the principal wheat provinces for information.

Lower exportable supplies available from Black Sea origins coupled with the likelihood of increased imports by Syria and Turkey will likely create a confusing a confusing picture to the IGB purchasing officials. This has the potential to increase the competitiveness of US wheat, particularly if Black Sea countries and /or Russia have production problems.